MARKET REPORT | 1Q/2021

NORTHMARQ

Chicago Multifamily

Vacancy Tightens as the Economy Starts to Rebound

Highlights

- The Chicago multifamily market recorded mixed performance during the first quarter, but there were more positive signs than negative ones. Absorption gained momentum, supporting a slight quarterly vacancy improvement. Rents ticked lower but are expected to begin to trend higher in the coming quarters.
- Vacancy fell 10 basis points during the first quarter, reaching 5.8 percent. This was the first quarterly vacancy decline since 2019. Year over year, the vacancy rate has risen 30 basis points.
- Rents contracted to start the year, but the decline was less severe than dips recorded at the end of 2020. Asking rents ended the first quarter $1,474 per month, 4.3 percent lower than one year ago.
- Apartment developers delivered fewer than 600 units in the first quarter, the fewest units to come online in a single quarter in nearly five years. Projects totaling approximately 6,800 units are currently under construction.
- A broad mix of properties changed hands at the start of the year. The median price rose to $137,900 per unit, while cap rates compressed to 5.6 percent.

Q1 Snapshot	Chicago Market
Market Fundamentals	
Vacancy	**5.8%**
- Year Over Year Change	**+30 bps**
Asking Rent	**$1,474**
- Year Over Year Change	**-4.3%**
Transaction Activity	
Median Sales Price Per Unit (YTD)	**$137,900**
Cap Rates (Avg YTD)	**5.6%**
Construction Activity	
Units Under Construction	**6,829**
Units Delivered YTD	**563**

Chicago Multifamily Market Overview

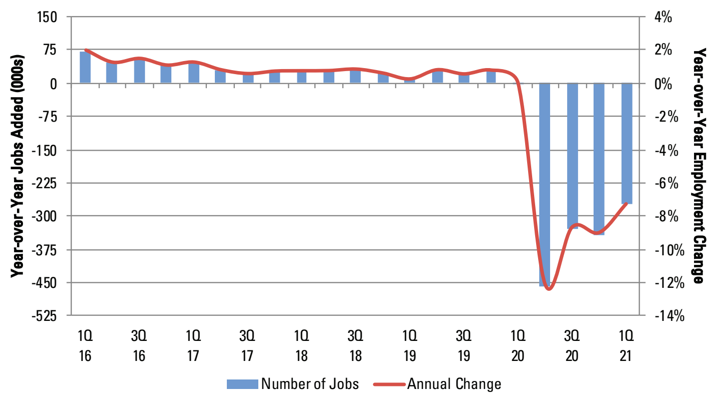
Operating conditions in the Chicago multifamily market began to stabilize during the first quarter. The local vacancy rate, while still higher than one year ago, inched lower at the start of the year, supported by absorption levels that topped 1,000 units. The absorption recorded during the first quarter exceeded the total net move-ins from the final nine months of last year when COVID-19 provided a drag on the economy as a whole. Looking ahead, apartment absorption is forecast to be supported by an accelerating pace of employment growth.

Investment in Chicago's multifamily properties returned closer to a more traditional mix of sales during the first quarter. While investment activity in 2020 was concentrated in older buildings selling at lower prices, the mix of transactions that closed during the first quarter of this year included a blend of Class A and Class B buildings, in addition to older assets. The result of this return to form was an increase in the median price per unit and cap rates that compressed into the mid-5 percent range.

Employment

- Year over year through the first quarter, total employment in Chicago has contracted by 7.2 percent with a net loss of nearly 275,000 jobs. The local labor market is recovering; during the first quarter, employers added 42,200 jobs. Employers are forecast to continue adding back workers through the remainder of the year.
- Chicago's financial activities industry has been the most stable employment sector since the beginning of last year. During the past 12 months, financial employment is down just 1.5 percent.
- Despite contraction in the overall economy, companies are still relocating and expanding in the Chicago area. During the first quarter, credit card company Discover announced plans for a call center expansion into Chicago's Chatham neighborhood. The company plans to add nearly 1,000 full-time jobs to the Chicago area by 2024.
- **Forecast:** Employers are expected to continue to re-staff payrolls throughout the remainder of the year. Total employment in Chicago is forecast to expand by approximately 120,000 jobs in 2021, a gain of 3.5 percent.

Employment Overview



Sources: NorthMarq, Bureau of Labor Statistics

During the first quarter, employers added 42,200 jobs

Vacancy

- Multifamily vacancy in Chicago showed a slight decline during the first quarter of 2021. Apartment vacancy dropped 10 basis points to start the year, retreating to 5.8 percent. This marked the first quarterly vacancy decline since the third quarter of 2019.
- Despite the modest improvement at the beginning of 2021, year over year through the first quarter, vacancy in Chicago rose 30 basis points. The rate has maintained a gradual increase since its recent low of 3.5 percent in 2014.
- Vacancy in Class A units ended the first quarter at 8.5 percent, 50 basis points higher than one year earlier. Absorption in the Class A segment of the market cooled in 2020 but totaled nearly 1,000 units during the first quarter of this year.
- **Forecast:** With the local labor market strengthening, absorption of apartment units should accelerate. Vacancy is forecast to decline 20 basis points in 2021, ending the year at 5.7 percent.

Vacancy Trends

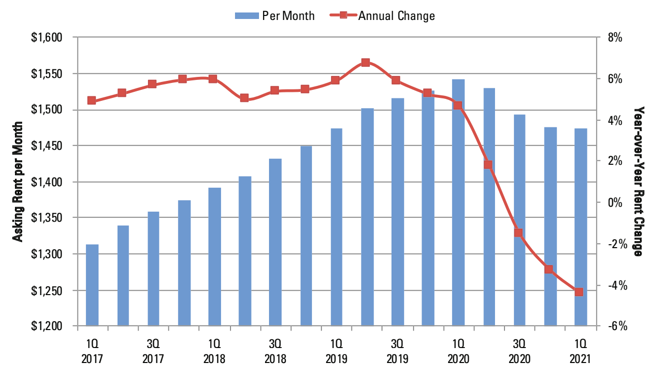
Sources: NorthMarq, Reis

Apartment vacancy dropped 10 basis points to start the year, retreating to 5.8 percent

Rents

- Apartment rents in Chicago dipped slightly during the first quarter, but the pace of decline was more modest than drops recorded at the end of 2020. Asking rents inched 0.4 percent lower in the first quarter, reaching $1,474 per month. In the fourth quarter of last year, rents declined 1.2 percent.
- While rents are largely leveling off, current asking rents are down 4.3 percent year over year. Rental rates reached a cyclical peak in the first quarter of 2020 at $1,542 per month.
- After creeping below $2,000 per month at the end of 2020, rents in Class A units inched lower again at the start of this year. Class A asking rents ended the first quarter at $1,979 per month, down nearly 6 percent year over year.
- **Forecast:** As employers continue to bring back workers, the local economy should stabilize and allow for modest rent growth. Asking rents are forecast to rise approximately 1.5 percent in 2021, reaching $1,500 per month by year end.

Rent Trends



Sources: NorthMarq, Reis

Asking rents are forecast to rise approximately 1.5 percent in 2021, reaching $1,500 per month by year end

Development and Permitting

- Apartment construction recorded its lowest level of quarterly deliveries in nearly five years during the first quarter, as projects totaling fewer than 600 units came online. Recent construction activity peaked from 2017 to 2019 and has slowed in subsequent periods.
- Development activity should gain momentum in the coming quarters. Approximately 6,800 units are under construction, although not all of the projects that are currently under construction will be delivered in 2021. A handful of current developments are scheduled to come online in 2022 or 2023.
- Multifamily permitting slowed to approximately 1,100 units during the first quarter of 2021, after developers pulled permits for more than 2,200 multifamily units at the start of last year.
- **Forecast:** The apartment inventory in Chicago is expected to grow by approximately 4,500 units in 2021, after nearly 5,500 units came online last year. This would mark the lowest level of annual completions since 2014.

Development Trends

Sources: NorthMarq, Reis

Approximately 6,800 units are under construction

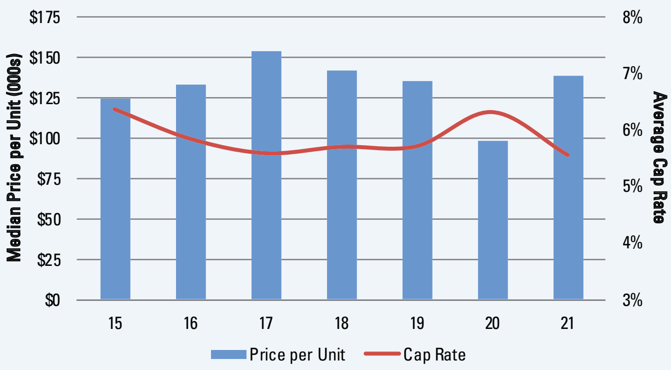
Multifamily Sales

> Multifamily sales activity started off this year at a slightly slower pace than at the beginning of 2020. Total transaction velocity was down 11 percent in the first quarter when compared to the same period in 2020.

> Despite the modest decline in the pace of transactions, the median sales price in Chicago pushed higher during the first quarter. The median price reached $137,900 per unit at the start of this year, up from 2020 levels but close to the range recorded from 2016 to 2019.

> Cap rates in Chicago compressed as prices pushed higher. During the first quarter, cap rates averaged 5.6 percent, down 70 basis points from 2020 levels.

Investment Trends



Sources: NorthMarq, CoStar, Real Capital Analytics

Cap rates averaged 5.6 percent in the first quarter, down 70 basis points from 2020 levels

Recent Transactions in the Market

MULTIFAMILY SALES ACTIVITY

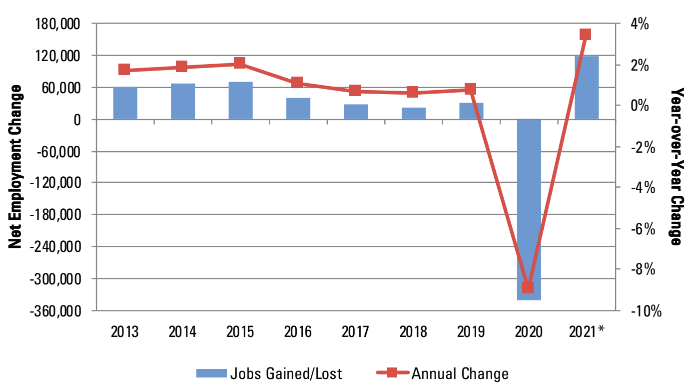
Property Name	Street Address	Units	Sales Price	Price/Unit
The Aventine at Oakhurst North	2800 Pontiac Dr., Aurora	464	$86,000,000	$185,385
Wing Park	6 Tivoli Pl., Elgin	184	$23,700,000	$128,804
Reserve at Fox River	1222 Market Pl., Yorkville	132	$20,500,000	$155,303
Haven St. Charles	1909 Oak St., St. Charles	71	$10,300,000	$145,070

Looking Ahead

The Chicago multifamily market showed clear signs of stabilizing during the first quarter, and the outlook for the second half of the year is fairly favorable. The first sign of improving conditions was the pace of hiring, which gained momentum during the first quarter and improved the outlook for the local labor market for the remainder of 2021. The bulk of job growth will be in the form of rehiring workers, but the market is also seeing some expansions of existing companies as the national economy strengthens. Apartment absorption picked up in the first quarter, and additional increases in absorption should stabilize rents. By the end of this year, market rents should again be on an upward trajectory.

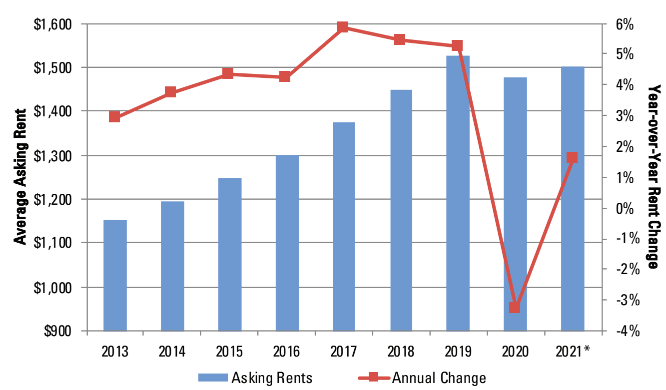
The investment outlook for Chicago multifamily properties will likely brighten as the year goes on. The local economy is gradually working its way back after stalling in the spring and summer months of last year. If the strong pace of rehiring workers that was established during the first quarter can be maintained in the coming months, that should improve investor sentiment and facilitate additional transaction volume. To this point in the year, investors have demonstrated a preference for quality assets, pushing prices closer to 2018 and 2019 figures after a dip in 2020. Cap rates have compressed and could dip further if lending rates remain low.

Employment Forecast



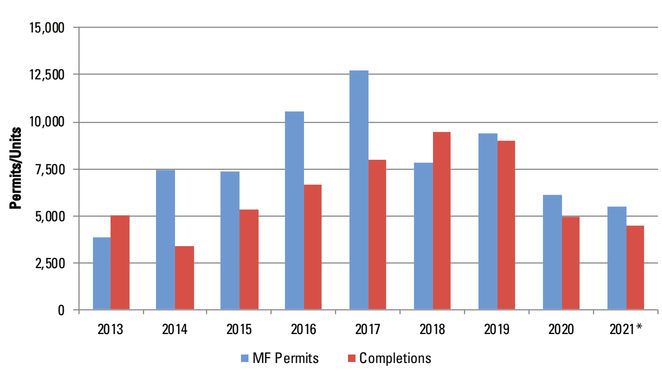
* Year End Forecast
Sources: NorthMarq, Bureau of Labor Statistics

Rent Forecast



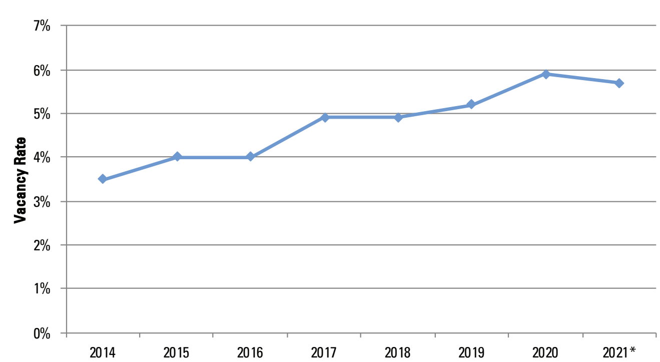
* Year End Forecast
Sources: NorthMarq, Reis

Construction & Permitting Forecast



* Year End Forecast
Sources: NorthMarq, Census Bureau, Reis

Vacancy Forecast



* Year End Forecast
Sources: NorthMarq, Reis

About NorthMarq

As a capital markets leader, NorthMarq offers commercial real estate investors access to experts in debt, equity, investment sales, and loan servicing to protect and add value to their assets. For capital sources, we offer partnership and financial acumen that support long- and short-term investment goals. Our culture of integrity and innovation is evident in our 60-year history, annual transaction volume of more than $16 billion, loan servicing portfolio of more than $65 billion and the multi-year tenure of our nearly 600 people.

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